

## DOCUMENT RESUME

ED 450 225

CE 081 340

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TITLE Helping Low-Wage Workers: Policies for the Future. Summary of Presentations at the Urban Institute Conference (Washington, DC, May 6-7, 1999).  
INSTITUTION Urban Inst., Washington, DC.  
SPONS AGENCY Department of Labor, Washington, DC. Office of the Assistant Secretary for Policy.  
PUB DATE 1999-08-00  
NOTE 26p.; "With Felicity Skidmore."  
AVAILABLE FROM For full text:  
<http://www.dol.gov/dol/asp/public/futurework/conference/low-wage.htm>.  
PUB TYPE Collected Works - Proceedings (021)  
EDRS PRICE MF01/PC02 Plus Postage.  
DESCRIPTORS Adults; Basic Skills; \*Disadvantaged; Educational Needs; Employer Attitudes; \*Employment Patterns; \*Job Skills; Job Training; Labor Force Development; \*Low Income; Low Income Groups; \*Policy Formation; Poverty; \*Public Policy; Underemployment; Wages

## ABSTRACT

Stagnant or declining wages for less-educated workers make policies to upgrade the job market options for low wage workers an urgent priority. One in three low wage workers lives in a low income family. The link between low basic skills and low wages is strong. No single standard of minimum skill requirements applies to all middle income jobs, and rewarding careers require the ability to use sets of skills rather than individual skills in isolation. Employers want to ensure that training is effective and need more evidence linking training and profitability. Income supports that encourage work while raising family income are important. Among them are food stamps, Medicaid, expanded unemployment insurance, and the Earned Income Tax Credit. (Contains 10 references.) (KC)

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## Summary of Presentations at the

### Urban Institute Conference

# Helping Low-Wage Workers: Policies for the Future

By Robert I. Lerman with Felicity Skidmore

Urban Institute  
Washington, D.C.  
August 1999

This summary reports on a conference held at the Urban Institute on May 6-7, 1999, and sponsored by the Office of the Assistant Secretary for Policy, U.S. Department of Labor. The opinions expressed in this conference summary are not necessarily those of the Urban Institute, its board, or its trustees, or the U.S. Department of Labor.

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## ABSTRACT

Stagnant or declining wages for less-educated workers make policies that upgrade the job-market options for low-wage workers an urgent priority. Last May, at a conference sponsored by the U.S. Department of Labor, the Urban Institute invited a number of experts to spend a day and a half clarifying the policy dimensions of the low-wage problem and using those insights to distill promising policy ideas for the future. This paper summarizes the presentations of the conference participants.

The topics covered at the conference included a description of the low-wage working population to identify which groups are of most public concern, the strong relationship between low basic skills and low wages, and policy initiatives to increase the effectiveness and reach of basic skills training. The participants also addressed existing policies designed to protect workers from income instability and inadequate living standards and discussed how these policies might be made more effective.

**Brief Description:** This paper summarizes the presentations of participants at a conference on low-wage workers co-hosted by the U.S. Department of Labor and the Urban Institute.

**Keywords:** low-wage, low-income, skills, education, job market, job training, labor force

Stagnant or declining wages for less-educated workers, combined with new requirements and time limits that force low-income families to rely on work instead of welfare, make policies that upgrade the job-market options for low-wage workers an urgent priority. Last May, at a conference sponsored by the U.S. Department of Labor, the Urban Institute invited a number of experts to spend a day and a half clarifying the policy dimensions of the low-wage problem and using those insights to distill promising policy ideas for the future.

Conference participants examined the low-wage working population to identify which groups are of most public concern. They discussed the relationship between low basic skills and low wages and outlined promising policy initiatives to increase the effectiveness and reach of basic skills training. Participants reviewed existing policies designed to protect workers from income instability and inadequate living standards and discussed how these policies might be more effective for the nation's most vulnerable workers.

This booklet summarizes the conference panel discussions and subsequent suggestions for improving the relevant policies.

## **Low-Wage Workers in Low-Income Families: A Key Policy Concern**

Low-wage jobs do not, by themselves, imply a problem for policymakers. For young people, in particular, such jobs offer the chance to gain valuable experience in the workplace at the same time that they earn spending money for themselves or their families. In addition, the presence of low-wage jobs in the economy helps keep production costs

and prices low, thereby benefiting all consumers. However, when heads of families<sup>1</sup> must rely entirely on jobs that pay too little to support an adequate living standard, policymakers are justifiably concerned.

How many low-wage workers fall into this latter category and what are their characteristics?

#### Number of Workers Affected

- One in three low-wage workers lives in a low-income family—that is, a family whose annual income is at or below 150 percent of the federal poverty level.
- Nearly one in five low-wage workers lives in a low-income family with children.

#### Characteristics of Workers Affected

- One in three low-wage workers in low-income families earns all or most (over 50 percent) of the family income.
- Almost one in six low-wage workers is an unmarried mother.
- Of every five workers who are in low-wage jobs one year, two move into moderate-wage positions by the following year.
- Nearly three in 10 low-wage workers are high-school dropouts, in contrast to less than one and a half in 10 of the workforce as a whole.
- Nearly one in four low-wage workers are foreign-born, and one in five are noncitizens.

These last two characteristics suggest that a substantial proportion of low-wage workers in low-income families need higher skills to obtain higher wages, especially since low-skill, well-paying jobs are a declining share of total employment.

### **Low Basic Skills and Low-Wage Employment**

About half of all workers with low basic skills have low-paying jobs, positions paying less than \$7.50 per hour in 1997 dollars. And low basic skills have a significant, depressing effect on wage levels, even when education and other characteristics are taken into account. This effect is stronger for women than men, in part because the remaining higher-wage jobs that require only low levels of basic skills, such as truck driver or construction worker, tend to be dominated by men.

Just how low are the skill levels of low-wage workers? The National Adult Literacy Survey (NALS) provides an answer.<sup>2</sup> NALS tests a nationally representative sample of individuals on their "functional literacy" or their ability to perform common tasks involving basic reading, writing, and mathematical skills such as interpreting a bus schedule. The test was scored on five literacy levels. Individuals scored at the lowest level if they could not locate an intersection on a street map, understand an appliance warranty, or total the costs from a purchase order.

The survey reveals a close connection between weak functional skills and low wages. Fully 60 percent of male low-wage workers and 45 percent of female low-wage workers tested in the bottom two categories of functional literacy. Twenty percent tested at

the lowest level. Of workers tested at the lowest level, 56 percent of employed women and 30 percent of employed men had low weekly earnings (under \$260 in 1997 dollars). The unemployment picture mirrors these results, with women in the lowest literacy category at a 20 percent unemployment rate—over three times the rate of those at literacy level 3.

#### **Functional Literacy and Wages**

Achieving a moderate or high level of functional literacy is critically important in escaping low wages and low incomes. Of the 65 percent of workers scoring at level 3 (the middle category) or higher on the National Adult Literacy Survey, only 3.5 percent of men and 6.5 percent of women earned low wages and lived in families with incomes below 150 percent of the federal poverty level. On the other hand, low functional literacy substantially increases the chances of working in a low-wage job. For example, the incidence of low wages for women was 30 percentage points higher among those scoring at the lowest literacy level relative to those women scoring in the middle.

Even though schooling and literacy are closely linked, possession of a high school diploma or passing the G.E.D (general education development) test does not guarantee a high degree of functional literacy. Over 40 percent of workers who were high school or G.E.D. graduates, for example, tested at the second literacy level (indicating they could not systematically perform tasks such as writing a letter explaining an error on a credit card bill or using a calculator to determine a 10 percent discount).

Most measures of workers' skills—like the NALS—are based on academic measures that bear no relationship to specific tasks required in a work setting. But even tests that provide measurements related to job-skill requirements find that large numbers of workers lack the skills required by most middle-income jobs.<sup>3</sup> ACT Work Keys, one such test, collects information on what it calls “foundational skills,” measured in the same

metric as the ACT measures job skills. This system has the advantage of providing not just a diagnosis of potential workers' deficiencies but also the specific types of training required to fill the gaps between job requirements and worker skills. Thus, Work Keys allows employers to customize their training to meet their needs.

One ACT study, cosponsored by the Ohio Business Roundtable and the Ohio Department of Labor, provides a dramatic illustration of the skills gaps between workers and jobs. The study matched the skill profiles of over 4,000 jobs drawn from the Work Keys database of all jobs audited by ACT against the skills of Ohio high school seniors. One in 14 seniors met the minimum requirements for 80 percent of those jobs. All the rest lacked at least one skill related to applied math, reading for information, locating information, and applied physical science (called applied technology in the ACT system). Even when the applied technology requirement was dropped, only two of 14 met all the remaining requirements.

The ACT approach brings out two points often ignored in discussions of workforce skills. First, there can be no single standard of minimum skills required to obtain middle-income jobs. Some require math skills; others do not, demanding instead teamwork, listening, or verbal skills. Second, examining individual skills in isolation is not an effective way to assess job readiness. Employers are looking for people who can apply several sets of skills in combination. Most workers have some of the necessary skills, but many are deficient in one or more critical components.

#### **An Overview of ACT Work Keys**

Developed by ACT, Inc., formerly the American College Testing Program, the ACT Work Keys system is used by businesses, educational systems, and job training programs



throughout the country. Using Work Keys, employers can identify and develop workers for a wide range of skilled jobs; students and workers can document and advance their employability skills; and educators can tailor instructional programs to help students acquire the skills employers need. ACT Work Keys develops profiles of jobs and careers in organizations with respect to selected skills; assesses individual workers in terms of these same skills; and recommends individualized training to bridge the gaps between worker skills and job requirements. The skill areas assessed under ACT Work Keys include communication skills (listening, reading for information, writing), problem-solving skills (applying mathematics, applying technology, locating information), and interpersonal skills (especially the ability to work well in a team context).

### **Employer Investment in Basic Skills Training: Obstacles and Progress**

Since many workers lack basic skills, employers must either pay a high premium for workers with the skills they need or risk losing significant productivity. Thus, presumably firms would find it in their best interest to provide the training necessary to upgrade worker skills and therefore productivity. Yet the amount of firm-sponsored training to raise basic skills is modest in comparison to the pool of workers who require such training. In a survey of Michigan employers, for example, less than 5 percent of medium-sized firms offered basic skills training, despite reports that up to 37 percent of workers for these very employers have at least one skill deficiency that reduces productivity.<sup>4</sup> Other evidence suggests that employers recognize that the skills problem is getting worse. According to a study by the national accounting firm Coopers and Lybrand, the proportion of employers reporting that skill shortages are barriers to their growth rose from 27 percent in 1993 to over 69 percent in 1999.<sup>5</sup>

Why do less than 2 percent of workers report receiving any basic skills training, when the cost of this type of training is often no more than about \$500 per worker? The answer labor economists give, based on human capital theory, is that employers do not

invest in basic skills because other employers can easily hire the newly trained workers, thereby benefiting from the training without having to pay for it—a phenomenon commonly called poaching.

Evidence does not support the poaching explanation as the only or even the major explanation. Fewer than one in six employers cite high employee turnover as a major reason for not providing training. Perhaps more convincingly, employers support considerable training for the more educated segment of the workforce, even though this may be the most valuable and most poachable group. Employers supported training for over 40 percent of college graduates in 1995, for example, compared with only 14 percent of high school dropouts.

*Tracking the Costs and Benefits to Employers.* A more likely explanation for the limited amount of employer-sponsored basic skills training may be that employers are not yet convinced that such training raises worker skills and productivity enough to justify even its modest costs.

While it is clear to most observers that the lack of basic skills is a large and growing problem, increasing anecdotal evidence suggests that many basic skills training programs are lagging behind the needs of businesses in today's economy. Indeed, there is little hard evidence that current training programs actually boost worker productivity. To help fill this gap, the American Society for Training and Development (ASTD) is now undertaking a major project to track the training program costs and benefits to employers. ASTD is working with a group of firms to develop common standards for measuring their education and training investments, human resource practices, and learning outcomes. The

initial evidence from these efforts indicates a close correlation between training effort and financial performance.<sup>6</sup>

A variety of other initiatives are beginning to convince employers that sponsoring basic skills training will yield real benefits to the bottom line. One of the most interesting new developments is the application of supply chain management to the human inputs of the production process.

*Knowledge Supply Chains.*<sup>7</sup> Manufacturing firms have learned from experience that using competitive bidding to select the low-cost bidder among suppliers often leads to the opposite of increased efficiency—high proportions of rejects, high costs, and low quality. Instead of accepting these problems, firms are increasingly choosing to work with a select group of reliable suppliers, viewing them as part of the firm's supply chain. Firms are now beginning to apply this successful business practice to the issue of worker qualifications, leading them to ask a new series of questions:

- Who are the suppliers of their workers?
- What share of workers are rejects because of low skill levels?
- Which suppliers are more effective in providing high-quality employees?
- How best can they work with the suppliers of skills training to ensure that company needs are met?

Answers to these questions will put the basic skills training emphasis on the development of skills that employers need.

## **Work-Based Training As a Route to Increased Earning Power**

There are a number of innovative programs that involve the collaboration of groups of employers in the development of training curricula. These programs are based on the principle that work-based training, if implemented effectively, can raise the earning power of low-wage workers. By pooling resources, groups of employers or industry sectors share the risks and costs of training and together craft well-structured joint training efforts. These efforts allow managers to build solutions by speaking with a unified voice to the training sector and, as important, reduce the presumed risk of poaching.

*Business Partnerships.* A successful prototype of this approach is Learn Share, a program through which a group of midwestern companies formed a consortium to establish efficient training networks. The members share existing training resources, jointly fund the purchase of additional training programs, collaborate on the development of new training curricula, and sponsor Internet-based training and computer conferencing.

The Center on Wisconsin Strategy in Dane County, Wisconsin, is a similarly fruitful approach.<sup>8</sup> The basic model here is to select industries in which there are occupational shortages, identify semi-skilled workers already employed in those industries, and develop curricula jointly with the local technical college to deliver the skills training necessary to move workers into the occupational shortage areas. A partnership in the finance and insurance industry is one example. Customer service and clerical workers are the semi-skilled workers already in the industry. Drawing on their knowledge of the company software, these workers take a 16-week intensive computer training course, after which many move successfully into positions in their firms' programming divisions. A

partnership in the health care sector is having similar success in training certified nursing assistants to move into such technical middle-level jobs as phlebotomy (the drawing of blood for testing).

*Sectoral Approaches by Community-Based Organizations.* In this model, community-based organizations committed to long-term improvements in the lot of marginal workers have focused on particular industry sectors and developed their own expertise about the structure of the jobs in those sectors. In this way, they are building credibility with firms in the industry by proving they can help devise effective strategies for upgrading worker productivity. These activities not only improve worker skills—and thus wage opportunity—but also lead naturally to interventions that actually restructure job content in a way that promotes career ladders, thereby increasing long-run wage opportunity.

Community organizations have worked with the banking industry in San Antonio to restructure teller positions; with garment manufacturers in New York to modernize plants and upgrade the skills of their workers in pattern making and computerized marking, grading, and cutting; with government programs and day care providers in Providence, Rhode Island, and New York to improve the training and working conditions of day care workers; and with employers of health care workers in a variety of places and settings to increase the training and wages of certified nursing assistants, home care workers, and other health paraprofessionals.<sup>9</sup>

Labor unions are also well placed to develop similar job restructuring to create ladders of occupational advancement. Union representatives have connections across

several companies, can see the emerging needs of the workplace, can focus on the potential for upgrading jobs and training existing workers, and can bring knowledge about the workplace to training providers. A state American Federation of Labor chapter played a major role in establishing regional training partnerships in Wisconsin and in connecting the public training system, the manufacturing extension service, and welfare-to-work programs with employers. The goal is to help employers maintain and expand high-productivity and high-wage jobs.<sup>10</sup>

Government agencies also are beginning to recognize the value of sectoral approaches to job placement and training. The Boston Private Industry Council (PIC) and its career centers, for example, are bringing together employers and agency staff from the hospital, medical, retail, and shipping sectors.<sup>11</sup> The PIC convenes committees of employers who help determine the training to be offered and agree to hire graduates from the programs. The hiring rate so far is over 80 percent of completers, and job retention is high as well. While start-up costs of customized training of this type are often high and the coverage of workers limited, training with serious employer involvement has a solid record.

In the language of supply chain management, these and other organizations are trying to create long-term supplier relationships with employers by offering high quality, dependability, and adaptability. The important task of screening individuals recommended for placement is made easier when the placement organization is very familiar with the content of jobs and what a worker needs to succeed in the relevant arena.

<b>Benefits of Sectoral Training Partnerships</b>
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Sectoral training partnerships have several benefits. They help overcome free-rider
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problems or “poaching” within the industry; produce economies of scale and scope in development of training, curricula, and benchmarks; and send the public sector clearer and more representative industry signals, while providing leverage for public efforts. Two Wisconsin projects provide examples of partnerships that work. The Wisconsin Regional Training Partnership is made up of 46 manufacturing firms in metro Milwaukee. The partnership runs incumbent worker, future workforce, and modernization programs. Similarly, the Jobs With a Future project has established health care, manufacturing, and finance and insurance partnerships. The program has not only created an upward mobility program to connect poverty-wage workers with better jobs, it has also enabled more than 60 students to advance in new career paths.

## **Help at the Worker Level: Career Transcripts and Workplace Liaisons**

Official records rarely indicate whether a low-skill worker is ready for tasks of greater complexity and responsibility. It is well recognized that employers often lack good information about worker qualifications, partly because resumes can be unreliable, references noncommittal, and school transcripts difficult to interpret. In addition, many critical skills demanded by employers—such as responsibility, judgment, and working in teams—are not documented on traditional resumes. Although supervisor appraisals should be a good source of information, typical interactions between low-skill workers and their supervisors are neutral to negative. Lacking a good way to know what skills are most relevant to their future, or to demonstrate what strengths they may already have in these job-relevant skills, low-wage workers often see little point in spending their limited free time taking courses. Even in cases where the courses are free and/or the employer offers paid time off to take them, for example, most workers say they do not take up such opportunities when offered.<sup>12</sup>

The career transcript is an emerging way to tackle this problem head on. It is a certified resume of life-long learning, including not only information about a worker’s

education and experience but also a summary portfolio of his or her work. In this way, it provides workers with a vehicle to document capabilities to perform high-level tasks. The career transcript may also prompt supervisors not only to relay what skills are needed to get ahead but also to provide the opportunities for workers to demonstrate such skills.<sup>13</sup> Information on standardized tests and structured assessments of workplace and classroom performance is entered in a timely and easy-to-understand fashion. In addition, a workplace liaison (counselor) determines those tasks that low-wage workers, with some coaching, are able to undertake. When a hotel cleaning worker demonstrates effectiveness when substituting at the registration desk, or a fast-food worker shows the ability to plan a large event, for example, the liaison documents these experiences with entries on the certified career transcript. Similarly, when gaps are identified between the competencies of workers and the skills required to undertake higher-level tasks, the liaison assists the worker in obtaining the necessary skills through community college courses or on-the-job training.

The unique advantage of the career transcript and associated worker liaison strategy is the direct alignment of skill promotion with incentives for both workers and their employers. Workers see the relevance of skill development, not only on their existing job but also for future positions. Employers recognize that the career transcript can provide more reliable and relevant information on job applicants. They also realize that the work liaison program can help them upgrade existing workers instead of having to invest substantial resources in recruitment. If employers evaluate their supervisors at least partly on the entries they place in their employees' career transcripts, employers will have a



direct self-interest in paying attention to what their employees need in the way of skills and in providing opportunities to acquire those skills. This, in turn, can be expected to lead to reduced employee turnover and its associated costs.

## **Making Public Programs Work for Low-Wage Families**

Low-wage workers supporting families have access to a number of government programs that provide economic support and/or strengthen job prospects. Some of these programs simply make it easier for workers to stay on the job and earn seniority; seniority by itself increases earning power. Others are benefit programs designed not as cash handouts for people who do not work but as income supports for those who do. The Earned Income Tax Credit (EITC) is one example. Other important programs include those that create jobs for the unemployed and the unemployment insurance system, a long-standing part of our social insurance system designed specifically to smooth income instability created by periods of job loss.

*Programs to Help Workers Stay on the Job.* It is well documented that low-wage workers in low-income families often encounter obstacles to staying on the job that would be overcome in families with more spendable income. Transportation is one such obstacle. If the job is far away and the worker lacks access to a car or the car has broken down, getting to the job on a regular basis may become an insurmountable barrier. Child care is another challenge. If the regular child care arrangement breaks down, the worker, particularly the single-parent worker, may have to forgo work until substitute care arrangements can be made.

Increasingly, programs to ease these day-to-day problems are helping TANF (Temporary Assistance for Needy Families) and other low-wage workers keep their jobs.<sup>14</sup> In Dallas, Texas, for example, a state-funded demonstration helping workers obtain high-paying jobs arranges for a van to take participants to their jobs for \$40 a week. At the end of 13 weeks of satisfactory job attendance, participants' weekly payments are returned to them to apply toward the purchase of a car. In Charleston, South Carolina, postemployment case managers in the welfare department work with employed former recipients and their employers to deal with mental health, transportation, and other problems that threaten to reduce job retention. The state of Illinois is considering setting up an Employee Assistance Plan (EAP), to be contracted out to a private provider, that would provide similar services to help former welfare recipients stay on the job. Importantly, programs of this type are kept separate from the welfare system—both because former recipients who have found jobs typically resist further contact with anything they view as welfare and, more fundamentally, because of society's need to emphasize a culture that supports and expects work.

*Income Supports for Workers.* Even though cash welfare is now time limited, other income support programs are in place that are complementary to work, in particular the Earned Income Tax Credit (EITC), Food Stamps, and Medicaid. The first directly raises the take-home pay for low-wage workers. The second raises a family's ability to buy food. The third provides health insurance during the transition period while former recipients are getting used to the world of work.

<b>Income Supports for Low-Wage Families</b>
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Families supported by low-wage workers generally have access to a range of government
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supplements aimed at preventing extreme economic hardship. In families with two or more children, the Earned Income Tax Credit provides a supplement of 40 percent of the worker's wage up to a maximum of \$3,850, or about \$320 per month. All low-income households with low amounts of assets qualify for Food Stamp benefits. For families of three with earnings of \$400 per month, the Food Stamp benefit is equal to about \$310 per month. All children and many adults in low-income families qualify for Medicaid coverage. Housing benefits and child care subsidies add to the supplementary package for low-wage workers in low-income families. But not all low-income families have access to all benefits (especially housing and child care), and many families do not claim the benefits that are available. A major challenge is to make existing government income support programs more accessible to low-wage workers in low-income families.

The good news is that substantial resources have been put into the EITC and it is working well. Indeed, more is spent on the EITC (nearly \$30 billion) than was ever spent in real terms on Aid to Families with Dependent Children (AFDC) (maximum \$23 billion in 1998 dollars). The bad news is that many low-wage workers who are still eligible for food stamps and Medicaid are not receiving benefits to which they are entitled.<sup>15</sup> The perceived stigma attached to benefits that used to be associated with welfare may be one reason. But another likely reason, noted by a number of conference participants, is that, without the facilitating mechanism of the old welfare office, it is harder for low-wage, low-income workers to find out what benefits they may be entitled to and—with a job—harder to spend the necessary time off work to hunt down and complete the paperwork needed to apply.

The one-stop center concept is finding new encouragement at the federal level, not only to remove the welfare stigma but also to make access to nonwelfare job supports easier.<sup>16</sup> These are integrated centers where people (welfare and nonwelfare clients alike) can come not only for job training and employment services but also for any other services

they may need—including access to food stamps, Medicaid, education, child care, and a range of employment-facilitating services. Resources are not the biggest obstacle to making such centers work, since the separate programs already exist. The biggest barrier may be the need for a common will and united vision among agencies and levels of government that have a history of competition rather than cooperation.

*Unemployment Insurance.* Low-wage workers tend to have more job turnover and periods without work than those with “good” jobs. The unemployment system was designed to supplement the incomes of workers laid off involuntarily who have committed no misconduct on the job. Yet low-wage workers are much less likely to be covered by the unemployment insurance (UI) system than other workers. Analysts are beginning to think about ways the UI system can be changed to become a more effective protection for at least some of the low-wage population.<sup>17</sup> Two changes are particularly relevant for the low-wage, low-income worker. The first is to expand the list of nonmonetary eligible reasons for leaving a job to include such circumstances as unemployment due to domestic violence victimization. This is particularly relevant for former TANF recipients, many of whose lives are complicated by the prevalence of domestic violence. Twenty or so states now include domestic violence as a UI-eligible reason for leaving a job, with more states currently considering such legislation. The second change is to alter the earnings base period to allow more recent earnings to be recognized in the eligibility determination. This would make workers with shorter job tenure eligible, which would disproportionately benefit low-wage workers, young and minority workers, and workers with less education—exactly the groups most vulnerable to job insecurity.

*Job Creation.* The initial success of welfare reform initiatives hinges in part on the ability of former recipients to get and keep jobs. Welfare caseloads have been dropping dramatically, evidence that many former recipients have indeed found jobs. But many states are finding that their remaining welfare recipients face serious barriers to finding a job in the regular labor market. The current robust economy also may not last forever. If and when a recession hits, workers in low-wage, short-tenure jobs can expect to be the first to go. And former recipients leaving TANF can expect to have more trouble finding employment.

#### **Current Job Creation Strategies**

Nearly all government outlays create jobs indirectly as part of some other objective, such as building roads, educating children, or preventing crime. Sometimes, the primary mission of a public program is to expand the availability of employment for needy, able-bodied workers. By far the largest direct job creation programs took place during the Great Depression, when nearly 7 percent of workers were in subsidized jobs. Currently, direct job creation is a modest component of federal and state programs and the approach to job creation varies widely across programs. In some programs, welfare recipients work in public or nonprofit agencies in return for their welfare assistance. Other programs pay for summer jobs or community service positions for disadvantaged youth. Still others use government funds to subsidize private, for-profit firms hiring low-income workers.

Direct job creation as a policy strategy has been around for a long time—at least since the Great Depression in the 1930s—and numerous funding streams now exist that can be used to create public service jobs for former welfare recipients. The strategy, however, faces considerable criticism on two major grounds. First, it is said to be a policy that has substituted public service jobs for other jobs in the economy, giving employers a windfall while playing musical chairs in the job market. Second, the jobs created are thought to be make-work rather than adding production to the economy.

A new look at the evidence suggests that a more optimistic assessment may be in

order.<sup>18</sup> Although evidence suggests that the creation of jobs in private industry can lead to considerable substitution, at least the jobs created by private-sector employers are likely to fill a business need. Moreover, recent employment creation in the public sector appears to be less susceptible to substitution than earlier public employment projects. The New Hope demonstration in Milwaukee, Wisconsin, for example, which promised a job to all former welfare recipients who wanted one—and delivered on its promise—added considerably to public-sector employment without reducing the supply of private-sector jobs.<sup>19</sup>

Mixed evidence suggests the need to use caution on the job creation front, perhaps employing a joint public- and private-sector focus that maximizes the relative strengths of each. New combined public-private partnerships are being tried in many areas across the country.<sup>20</sup> If their promise holds up under evaluation, they could be expanded as the economy weakens and/or TANF recipients become increasingly hard to place.

## **Seven Messages for Policymakers**

A number of policy-relevant observations emerged from the conference. Some are more easily incorporated into the design or redesign of existing programs. Others indicate that new approaches may be needed to help resolve old problems. The observations are offered in the hope that readers of this conference discussion summary will find them useful in evaluating and meeting the challenges involved in helping low-wage workers achieve greater earning power.

- One in three low-wage workers lives in a low-income family. This is the group of primary public concern because their jobs pay too little to support an adequate

living standard.

- The link between low basic skills and low wages is strong—and a high school diploma does not guarantee a high level of functional literacy. This finding buttresses the case for transparent academic standards that ensure high levels of literacy upon completing high school.
- No single standard of minimum skill requirements applies to all middle-income jobs. Training and assessment strategies should take into account the variations across occupations, while at the same time recognizing that rewarding careers require the ability to use sets of skills and not simply individual skills in isolation.
- Employers are more concerned about ensuring that training is effective at increasing productivity than they are about losing trained workers to other firms. But before employers invest substantially in skills training, they will need more evidence showing a positive link between training and profitability.
- Employers may become more willing to invest in basic skills if it becomes easier to measure needed skills, possibly with innovative techniques that use the same metric for actual job requirements. It is important to develop credible evidence about the cost-effectiveness of such tailored assessment and training approaches.
- Nonprofit training providers increasingly concentrate on specific industries in order to build credibility with employers, to help devise job ladders and other job enhancement strategies, and to align training requirements with specific careers. Such efforts have resulted in turnover reduction and increased efficiency in some firms.
- Income supports and other strategies that encourage work while raising family

incomes—such as on-the-job supports, EITC, food stamps, transitional Medicaid, expanded unemployment insurance, and job-creation strategies—are important complements to wages for ensuring the well-being of families.



## Notes

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1. Families as used here is the Census definition of households. Thus, it includes single adults.
2. See Robert Lerman and Stefanie Schmidt (1999).
3. These findings were reported at the conference by Tom Saterfiel, vice president of ACT, a nonprofit organization best known for its college admission testing program. ACT provides an array of educational services, including career and educational planning, student aid, continuing education, and professional certification and licensure. Also, see the analysis in Harry J. Holzer (1996).
4. Comments by Kevin Hollenbeck of the W.E. Upjohn Institute.
5. As reported at the conference by James Van Erden, vice president of Goodwill Industries.
6. This ongoing study is under the direction of Laurie Bassi, vice president for research at the American Society for Training and Development.
7. Comments by James Van Erden.
8. Comments by Laura Dresser.
9. Comments by Joseph Stillman of Public/Private Ventures. Also see Mark Elliott and Elisabeth King (1999).
10. Comments by Wendy Waldstein of the AFL-CIO Working for America Institute.
11. Comments by Dennis Rogers of the Boston Private Industry Council.
12. Comments by Arnold Packer.
13. For a detailed description of the career transcript system, see Arnold Packer, "The End of Routine Work and the Need for a Career Passport," prepared for the Hudson Institute's Workplace 2020 conference and available on the following Web site: <http://www.scans.jhu.edu>.
14. These examples come from the presentation by Burt S. Barnow of Johns Hopkins University.
15. See, for example, Pamela Loprest (1999) and US General Accounting Office (1999).
16. Dennis Rogers describes the success of the Boston one-stop center in appealing to all types of workers, not simply disadvantaged workers or welfare recipients.
17. Comments by Wayne Vroman. Also see Vroman (1995).
18. Comments by David Ellwood. Also see Ellwood (forthcoming).
19. See Bos et al. (1999).
20. Comments by Demetra Nightingale. Also see Trutko, Nightingale, and Barnow (1999).

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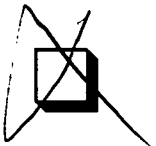


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